

Message Text

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ACTION EUR-12

INFO OCT-01 EA-10 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-02

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06 LAB-04 SIL-01

L-02 H-02 PA-02 PRS-01 USIA-15 /110 W

----- 060179

R 142110Z MAR 75

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 9293

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

AMCONSUL EDINBURGH

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USDOC WASHDC

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DEPARTMENT PASS TREASURY AND FRB

E.O. 11652: N/A

TAGS: ECON, UK

SUBJECT: ECONOMIC DEVELOPMENTS - WEEK ENDING MARCH 14

BEGIN SUMMARY: CHANCELLOR HEALEY GOT A LOT OF ADVICE ON

ECONOMIC POLICY THIS WEEK. MOST OF IT WILL NOT DISTURB

HIM AS IT SUPPORTS HIS POSITION ON THE NEED FOR WAGE

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DECELERATION AND THE DIFFICULTY OF ANY REFLATIONARY MEASURES

IN THE APRIL BUDGET WITHOUT SUCH DECELERATION. BOTH THE PRESTIGIOUS NATIONAL INSTITUTE OF ECONOMIC AND SOCIAL RESEARCH (NIESR) AND THE BANK OF ENGLAND MADE THESE POINTS IN QUARTERLY PUBLICATIONS THIS WEEK. NIESR FORECASTS LOW GROWTH AND CONTINUING HIGH INFLATION RATES (THOUGH DECELERATING) AND CALLS FOR WAGE MODERATION AND/OR A NEUTRAL BUDGET. THE BANK ALSO WARNS, IN STRONG TERMS OF THE DANGERS OF THE PRESENT WAGE TRENDS AND CALLS FOR MORE FINANCIAL RELIEF FOR THE COMPANY SECTOR AND CITES THE NEED FOR HIGHER INVESTMENT. HEALEY IS ALSO GETTING UNWELCOME ADVICE AND PRESURE ON THE NEED FOR IMPORT CONTROLS. THE TUC LAST WEEK ADVOCATED IMPORT CONTROLS AS A MEANS TO A REFLATIONARY BUDGET. NIESR STATED THEY WOULD BE FEASIBLE UNDER INTERNATIONAL AGREEMENT, BUT NOT TAKEN UNILATERALLY. MEANWHILE, THE ECONOMY CONTINUES TO WEAKEN AND INFLATION SHOWS LITTLE SIGN OF ABATING. END SUMMARY.

1. ECONOMIC POLICY. THE NATIONAL INSTITUTE OF ECONOMIC AND SOCIAL RESEARCH (NIESR) ISSUED ITS QUARTERLY FORECAST ON FRIDAY, MARCH 14. NIESR FORESEES SLUGGISH GROWTH FOR 1975 WITH UNEMPLOYMENT RISING TO 900,000 (3.9 PERCENT) BY THE END OF THE YEAR. 1976 WILL SEE AN UPTURN, NIESR BELIEVES, BUT ONLY A GRADUAL ONE WITH UNEMPLOYMENT CONTINUING TO MOUNT. INFLATION WILL BEGIN TO DECELERATE SOMEWHAT IN 1975. IN 1976 THIS WILL CONTINUE, BUT NIESR FORECASTS RELATIVELY HIGH INFLATION RATES IN BOTH YEARS. THE INSTITUTE CALLS FOR TIGHTER CONTROL OF WAGES AND STATES THAT WITHOUT WAGE DECELERATION, THE APRIL BUDGET WILL HAVE TO BE NEUTRAL DESPITE THE SAGGING ECONOMY. NIESR BELIEVES THAT EXCHANGE RATE DEPRECIATION WILL NOT BE OF MUCH HELP BECAUSE IT WOULD BE HIGHLY INFLATIONARY WITHOUT CONTROL OF INCOMES. FINANCING THE EXTERNAL DEFICIT THROUGH BORROWING WILL BECOME INCREASINGLY DIFFICULT. THE UK MAY HAVE TO TURN TO THE IMF, ACCORDING TO NIESR. (DETAILS TO FOLLOW.)

2. ECONOMIC POLICY. THE BANK OF ENGLAND (BOE) IN ITS QUARTERLY BULLETIN CALLED FOR MODERATION IN WAGE RATE INCREASES AND IMPLICITLY RECOMMENDS A NEUTRAL BUDGET. IN CONTRAST TO OTHER OBSERVERS, BOE SEES AN ACCELERATING TREND IN PRIVATE SECTOR WAGE SETTLEMENTS, AS WELL AS IN UNCLASSIFIED

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THE PUBLIC SECTOR. THE BANK CALLS FORMORE FINANCIAL ASSISTANCE TO THE COMPANY SECTOR IN ORDER TO INCREASE PRIVATE INVESTMENT AND A REDUCTION IN THE PUBLIC SECTOR DEFICIT OVER THE NEXT FEW YEARS. BOE ALSO ADVOCATES SHIFTING RESOURCES TO THE EXTERNAL SECTOR AND INVESTMENT BY ALLOWING CONSUMPTION TO GROW MORE SLOWLY. (SEE LONDON 3954 FOR DETAILS OF BOE'S CALCULATION OF THE DEPLOYMENT OF OIL PRODUCER SURPLUSES IN 1974.)

3. IMPORT CONTROLS. NIESR BELIEVES THAT THERE MAY BE A CASE FOR SELECTIVE IMPORT CONTROLS UNDER INTERNATIONALLY AGREED CIRCUMSTANCES AND CRITERIA. HOWEVER, THE INSTITUTE DOES NOT ADVOCATE UNILATERAL USE OF SUCH CONTROLS BY THE UK, CITING THE INEVITABILITY OF RETALIATION. THIS ARGUMENT WILL BE MADE TO SEEM ANOTHER VOICE FOR IMPORT CONTROLS AND WILL BE USED, HOWEVER ERRONEOUSLY, BY THE GROWING NUMBER OF ADHERENTS OF IMPORT CONTROL MEASURES WITHIN AND WITHOUT THE GOVERNMENT. THE PRESS HAS REPORTED A SPLIT IN THE LABOR GOVERNMENT OVER IMPORT CONTROLS, WITH PRESSURE FROM THE LEFT AND THE UNIONS TO INITIATE THEM. THE TUC HAS ADVOCATED IMPORT CONTROLS AS A PART OF A GENERAL REFLATIONARY POLICY IN ITS ANNUAL ECONOMIC REVIEW. (SEE LONDON 3460 AND 2757.)

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L-02 H-02 PA-02 PRS-01 USIA-15 /110 W

----- 060228

R 142110Z MAR 75

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 9294

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

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4. .WHOLESALE PRICES. THE FEBRUARY WHOLESALE OUTPUT PRICES INDEX (GOODS EX-FACTORY) INCREASED BY 1.4 PERCENT (174.8/172.4 - 1970 EQUALS 100). OVER A YEAR, THE INDEX NOW SHOWS A RISE OF 27.6 PERCENT. THE INDEX FOR WHOLESALE INPUT PRICES (RAW MATERIALS, BASIC FUELS) DECREASED BY 1.4 PERCENT (218.4/221.6). OVER THE PAST YEAR THIS INDEX NOW SHOWS A RISE OF ONLY 10.8 PERCENT. THE FEBRUARY FIGURES ARE PROVISIONAL.

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5. ECONOMIC ACTIVITY. STEEL OUTPUT HAS BEEN CUT BACK AND NEW ORDERS IN THE MACHINE TOOL INDUSTRY HAVE FALLEN PRECIPITOUSLY.

6. MONEY SUPPLY. LONDON CLEARING BANK FIGURES SHOW A SMALL RISE (69 MILLION POUNDS) IN STERLING ADVANCES TO UK RESIDENTS INDICATING A WEAK DEMAND FOR BANK LOANS. DESPITE THIS, "ELIGIBLE LIABILITIES" OF BANKS INCREASED BY 252 MILLION POUNDS WHICH MAY MEAN THAT THE RATE OF GROWTH OF THE BROADLY DEFINED MONEY SUPPLY (M3) HAS INCREASED.

7. FOREIGN EXCHANGE AND GOLD:

	3/6	3/13	CHANGE
EXCHANGE RATE	\$2.4285	\$2.4140	DOWN \$0.0145
EFFECTIVE DEPRECIATION			
(PERCENT)	21.4	21.3	DOWN 0.1
GOLD	\$180.75	\$179.50	DOWN \$1.25

8. FORWARD DISCOUNT ON STERLING:

	3/6	3/13	CHANGE
1 MONTH	1.20	1.20	UNCHANGED
3 MONTHS	3.55	3.65	UP 0.10
6 MONTHS	6.70	6.75	UP 0.05

(ALL FIGURES IN CENTS)

9. EURODOLLAR INTEREST RATES:

	3/6	3/13	CHANGE
1 MONTH	6-1/2	6-1/4	DOWN 1/4
3 MONTHS	7-1/4	6-3/4	DOWN 1/2
6 MONTHS	7-5/8	7-1/4	DOWN 3/8

10. LOCAL AUTHORITY DEPOSIT RATES:

	3/6	3/13	CHANGE
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1 MONTH	10-3/4	11	UP 1/4
3 MONTHS	11-1/8	11	DOWN 1/8
6 MONTHS	11-3/16	11-3/16	UNCHANGED

11. THE MINIMUM LENDING RATE REMAINED UNCHANGED AT 10-1/4 PERCENT ON FRIDAY, MARCH 14, 1975.

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Disposition Approved on Date:
Disposition Authority: n/a
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Disposition Comment:
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TAGS: ECON, UK
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006